

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
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June 29, 2001

Mr. Steven Gentzler, CFO  
Connelly Management, Inc.  
410 Mill Street  
Suite 201  
Mt. Pleasant, South Carolina 29464-4396

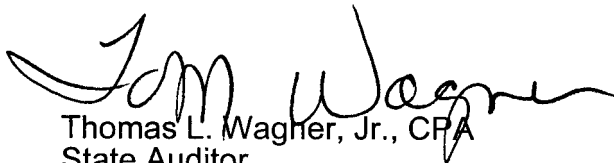
Re: AC# 3-CHS-J8 – Charleston Nursing Center, Inc.

Dear Mr. Gentzler:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Robert M. Kerr

**CHARLESTON NURSING CENTER, INC.**

**MT. PLEASANT, SOUTH CAROLINA**

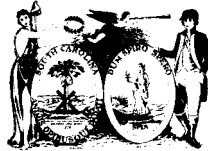
**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 1999  
AC# 3-CHS-J8**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## **CONTENTS**

	<b><u>EXHIBIT OR SCHEDULE</u></b>	<b><u>PAGE</u></b>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 1999	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 1999	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1998	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 4, 2000

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Charleston Nursing Center, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

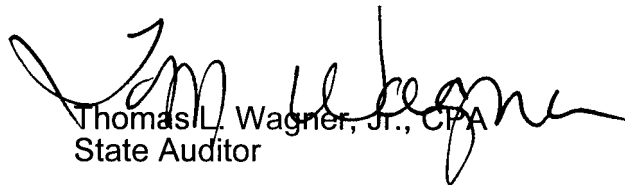
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid Program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Charleston Nursing Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Charleston Nursing Center, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
May 4, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**CHARLESTON NURSING CENTER, INC.**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 1999  
AC# 3-CHS-J8

Interim Reimbursement Rate (1)	\$94.20
Adjusted Reimbursement Rate	<u>92.38</u>
Decrease in Reimbursement Rate	\$ <u><u>1.82</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999.

**CHARLESTON NURSING CENTER, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period Beginning October 1, 1999  
AC# 3-CHS-J8

<u>Costs Subject to Standards:</u>	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
General Services		\$41.83	\$43.78	
Dietary		9.60	9.69	
Laundry/Housekeeping/Maint.		<u>8.18</u>	<u>8.24</u>	
Subtotal	<u>\$2.10</u>	59.61	61.71	\$59.61
Administration & Med. Rec.	<u>\$2.13</u>	<u>9.43</u>	<u>11.56</u>	<u>9.43</u>
Subtotal		69.04	<u>\$73.27</u>	69.04
<u>Costs Not Subject to Standards:</u>				
Utilities		2.80		2.80
Special Services		1.21		1.21
Medical Supplies & Oxygen		4.72		4.72
Taxes and Insurance		1.74		1.74
Legal Fees		<u>.08</u>		<u>.08</u>
TOTAL		<u>\$79.59</u>		79.59
Inflation Factor (3.00%)				2.39
Cost of Capital				6.90
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.13
Cost Incentive				2.10
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.48)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>1.00</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$92.38</u>

**CHARLESTON NURSING CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-CHS-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DHHS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$1,955,086	\$ -	\$ -	\$1,955,086
Dietary	566,326	-	116,906 (1) 703 (8)	448,717
Laundry	20,155	33,511 (2)	-	53,666
Housekeeping	221,699	-	33,511 (2) 5,084 (11)	183,104
Maintenance	149,623	-	4,147 (11)	145,476
Administration & Medical Records	410,215	19,966 (3) 20,733 (5)	10,143 (11)	440,771
Utilities	130,130	4,509 (7)	3,759 (11)	130,880
Special Services	42,104	116,906 (1)	102,663 (4)	56,347
Medical Supplies & Oxygen	229,426	-	2,630 (6) 6,300 (9)	220,496
Taxes & Insurance	83,687	-	2,303 (11)	81,384
Legal Fees	4,049	-	107 (11)	3,942



**CHARLESTON NURSING CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-CHS-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DHHS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	341,712	132 (10)	3,345 (11)	322,482
	<u>                    </u>	<u>                    </u>	<u>16,017 (12)</u>	<u>                    </u>
Subtotal	4,154,212	195,757	307,618	4,042,351
Ancillary	91,842	-	-	91,842
Non-Allowable	1,188,892	102,663 (4)	19,966 (3)	1,300,885
		2,630 (6)	20,733 (5)	
		703 (8)	4,509 (7)	
		6,300 (9)		
		28,888 (11)		
	<u>                    </u>	<u>16,017 (12)</u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$5,434,946</u>	<u>\$352,958</u>	<u>\$352,826</u>	<u>\$5,435,078</u>
Total Patient Days	<u>46,735</u>	<u>-</u>	<u>-</u>	<u>46,735</u>
Total Beds	<u>132</u>			

**CHARLESTON NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-CHS-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Special Services Dietary	\$116,906	\$116,906
	To reclassify expense to the proper cost center per provider's amended cost report State Plan, Attachment 4.19D		
2	Laundry Housekeeping	33,511	33,511
	To reclassify salary expense to the proper cost center per provider's amended cost report HIM-15-1, Section 2102.3		
3	Administration Nonallowable	19,966	19,966
	To properly state advertising expense per provider's amended cost report State Plan, Attachment 4.19D		
4	Nonallowable Special Services	102,663	102,663
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
5	Medical Records Nonallowable	20,733	20,733
	To adjust medical director expense State Plan, Attachment 4.19D		
6	Nonallowable Medical Supplies	2,630	2,630
	To remove invoice expensed twice State Plan, Attachment 4.19D		
7	Utilities Nonallowable	4,509	4,509
	To reverse DH&HS Income Offset State Plan, Attachment 4.19D		

**CHARLESTON NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-CHS-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable Dietary	703	703
	To remove invoice expensed twice State Plan, Attachment 4.19D		
9	Nonallowable Medical Supplies	6,300	6,300
	To adjust expense State Plan, Attachment 4.19D		
10	Fixed Assets	166,857	
	Cost of Capital	132	
	Accumulated Depreciation		163,361
	Other Equity		3,628
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304		
11	Nonallowable	28,888	
	Cost of Capital		3,345
	Taxes and Insurance		2,303
	Administration		10,143
	Legal		107
	Maintenance		4,147
	Utilities		3,759
	Housekeeping		5,084
	To remove indirect costs applicable to non-reimbursable cost centers State Plan, Attachment 4.19D		
12	Nonallowable	16,017	
	Cost of Capital		16,017
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	Total Adjustments	<u>\$519,815</u>	<u>\$519,815</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**CHARLESTON NURSING CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-CHS-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>132</u>
Deemed Asset Value	4,637,160
Improvements Since 1981	872,273
Accumulated Depreciation at 9/30/98	<u>(1,664,298)</u>
Deemed Depreciated Value	3,845,135
Market Rate of Return	<u>.063</u>
Total Annual Return	242,244
Return Applicable to Non-Reimbursable Cost Centers	(8,070)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>1,103</u>
Allowable Annual Return	235,277
Depreciation Expense	89,064
Amortization Expense	9,809
Capital Related Income Offsets	(7,522)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(4,146)</u>
Allowable Cost of Capital Expense	322,482
Total Patient Days (Minimum 97% Occupancy)	<u>46,735</u>
Cost of Capital Per Diem	\$ <u><u>6.90</u></u>

**CHARLESTON NURSING CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-CHS-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$4.66 *
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>8.65</u>
Reimbursable Cost of Capital Per Diem	\$6.90
Cost of Capital Per Diem	<u>6.90</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

\* Cost of Capital and Return on Equity Capital Per Diem as recalculated by DHHS, as a result of settlement agreement, and communicated to the provider by letter dated January 6, 1995. Previous amount was \$2.60.

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